

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of	)	
	)	
Auction of Advanced Wireless	)	AU Docket No. 06-30
Services Licenses	)	
(Auction No. 66)	)	

**REPLY COMMENTS OF  
UNITED STATES CELLULAR CORPORATION**

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The near-unanimity of comments clearly guides the FCC's decisions in this proceeding. The FCC should adopt its proposal to auction all AWS-1 licenses in a single standard SMR auction. Also, the FCC should continue to disclose full bidder and bid information. Some minor rule changes that are consistent with the established framework for FCC auctions involve reducing or eliminating minimum opening bids and decreasing minimum bid increments as activity decreases. The FCC should adopt these rules quickly in order to allow the auction to commence on June 29, 2006 as scheduled, with time for agreements on bidding entities, financings and development of bidding strategies.

**I. A SINGLE SMR AUCTION FOR ALL AWS-1 LICENSES WILL BEST PROMOTE THE PUBLIC INTEREST.**

United States Cellular Corporation ("U.S. Cellular") showed in its comments that subjecting any AWS-1 licenses to a SMR-PB auction -- concurrent or sequential -- would harm smaller bidders, decrease the efficiency of the license allocations, and upset the balance of interests achieved in the band plan.<sup>1</sup> In light of this band plan, there is no exposure problem

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<sup>1</sup> U.S. Cellular at 8-12.

warranting the abandonment of effective, tested procedures. Moreover, creating the threshold problem (an anti-small-bidder bias) as well as other complexities and inefficiencies would be contrary to the public interest.

All commenters -- wireless carriers of all sizes, auction economists and financial backers -- believe that concurrent SMR and SMR-PB auctions would be too complex and harmful to bidders.

Many smaller wireless and telephone carriers expressed interest in bidding on the CMA and EA AWS-1 licenses in a single standard SMR auction. They would be harmed by the complexity created by any SMR-PB auction.<sup>2</sup> Such auction procedures -- concurrent with or sequential to a standard SMR auction -- for some licenses would decrease smaller bidders' participation or aggressiveness of bidding. As U.S. Cellular showed in its comments, the threshold problem of SMR-PB auctions would harm smaller bidders and auction efficiency even if only larger bidders submitted package bids on REAGs.<sup>3</sup>

Larger wireless carriers can take advantage of the aggregated EA and REAG offerings provided for in the band plan under a single standard SMR auction. All of the four nationwide wireless carriers fear the complexity and new exposure problem from a concurrent

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<sup>2</sup> See, e.g., Venture Communications Cooperative at 1-2 ("package bidding could deprive rural carriers of meaningful opportunities to participate in AWS") (same comment from over 30 other small carriers); Centennial Communications at 4 ("Placing a large number of bids in two concurrent auctions for the same properties offers many opportunities for error, especially when one of the auction formats is not well tested....For bidders, the complexity of this system will require a commitment of greater resources than is typically devoted to an SMR format auction. Indeed, some bidders may find the commitment of resources too great a cost for the auction."); Rural Telecommunications Group ("RTG") at 7-9; Leap Wireless at 2-6.

<sup>3</sup> U.S. Cellular at 10-11.

SMR-PB auction.<sup>4</sup> Furthermore, three of the four nationwide carriers oppose any use of SMR-PB for any AWS-1 licenses (the outlier is discussed further below).

Auction economists recognize that the effects of and rules for concurrent SMR and SMR-PB auctions are untested. They urge the FCC not to experiment in this large, important auction with new rules which risk causing major damage to auction efficiencies and auction revenues.<sup>5</sup> Any SMR-PB auction of some AWS-1 licenses results in less flexibility for bidders to aggregate licenses than a single SMR auction.

Finally, financial backers are afraid of the complexity and untested procedures of SMR-PB.<sup>6</sup>

Verizon Wireless is the sole proponent of a separate SMR-PB auction of Blocks E and F licenses. This self-serving advocacy by one of four nationwide carriers is analytically weak. It is devoid of any consideration of the AWS-1 band plan and SMR-PB's harms from increased complexity and diminished bidder flexibility.

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<sup>4</sup> See Sprint Nextel at 2 ("Unless carefully structured, an SMR-PB auction could allow very large companies to systematically underbid the nation's AWS spectrum resources..."); Cingular at 2-3 ("the SMR-PB model is an untried approach which is certain to require applicants to develop different strategies, valuations and bidding decisions than have been used by applicants operating under the SMR design"); Verizon Wireless at 5 ("It would be extremely difficult for bidders with numerous auction objectives to manage eligibility across both [concurrent] auctions."); T-Mobile at 4 ("It is vitally important that the FCC disseminate the licenses in a simple, flexible and rational manner, following familiar rules and procedures that have a record of success in putting licenses in the hands of those entities that value them most.").

<sup>5</sup> See Milgrom and Rosston at 3 ("When licenses are substitutes, the assignment is most likely to be efficient if the licenses are awarded in a single SMR auction."); Cramton (attached to comments of T-Mobile) at 2 ("it would be a mistake to complicate the AWS auction in this manner with an untested hybrid process that seriously constrains the aggregation of substitutable licenses"); Center on the Study of Auctions, Procurements and Competition Policy (CAPCP) at 3.

<sup>6</sup> Columbia Capital and MC Venture Partners at 5.

Any advocacy of package bidding must stem from addressing a serious exposure problem in aggregating licenses.<sup>7</sup> Verizon Wireless does not even try to show any likelihood of an exposure problem in the context of the AWS-1 band plan. The FCC already accommodated Verizon Wireless' request by offering mega-licenses and aligning EAs and REAGs in adjacent blocks to "enable efficient aggregation of the REAG and EA 'building block' spectrum licensing areas."<sup>8</sup> There is no serious exposure problem with the AWS-1 band plan and a single standard SMR auction. On the contrary, any carving-off of some AWS-1 licenses for a SMR-PB auction would impede flexibility in aggregating licenses and upset the balance of interests achieved in the band plan.

Economists Cramton, Milgrom and Rosston point to the sacrifice caused by any SMR-PB auction of any AWS-1 licenses to bidders' ability to achieve efficient aggregations of licenses.<sup>9</sup> All other commenters (including the other nationwide wireless carriers) believe that any SMR-PB auction for any of the AWS-1 licenses -- concurrent or sequential -- relies on untested procedures and creates unnecessary complexity and the threshold problem.<sup>10</sup> In

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<sup>7</sup> See Milgrom and Rosston at 1.

<sup>8</sup> Service Rules for Advanced Wireless Services in the 1.7 GHz and 2.1 GHz Bands, 20 FCC Rcd 14058, at paras. 9, 18 (2005).

<sup>9</sup> See Cramton at 2: "Such an approach defeats the benefits of the FCC's 'band plan,' because dividing the licenses into two groups that are auctioned separately under different rules greatly complicates the ability of bidders to select from among substitutable licenses to achieve aggregation...." See also Milgrom and Rosston at 3: "Holding the auctions sequentially sacrifices some flexibility for bidders." Milgrom and Rosston are careful in stating that they do not advocate any use of SMR-PB for the AWS-1 licenses. "When licenses are substitutes" -- which the Bureau finds in the AWS-1 licenses (Public Notice DA 06-238 at 7) -- "the assignment is most likely to be efficient if the licenses are awarded in a single SMR auction." *Id.* They state that if the FCC decides to use SMR-PB for any of these licenses, then a sequential use of SMR-PB is better than concurrent auctions.

<sup>10</sup> See note 4 supra.

particular, the record shows that smaller bidders will be harmed by any SMR-PB auction for any of the AWS-1 licenses.<sup>11</sup>

The FCC should require Verizon Wireless and all other bidders to bid for these licenses in the fair competition of a single SMR auction.

## **II. CONCEALING THE STANDARD INFORMATION ON BIDDERS AND BIDS IN THIS AUCTION WOULD HAVE FAR MORE HARMS THAN BENEFITS.**

U.S. Cellular's comments pointed to many flaws in the Bureau's expectation that disclosures of bidder and bid information would be less important in the AWS-1 auction for bidders' valuations of licenses and bidding strategies.<sup>12</sup> This auction has serious uncertainties regarding technologies, services, market structures, providers, inter-carrier service arrangements and timing. Bidders will not simply rely on valuation models from PCS/cellular auctions and transactions. Moreover, there is a low likelihood of collusive bidding in light of the FCC's rules on anti-collusion, fixed bid increments and bid withdrawals/defaults; the large number of expected bidders; and the many distinctions among the AWS-1 licenses.

Almost all commenters assert that such information is needed to develop license valuations in this auction, and to coordinate technologies and service arrangements. None of the industry commenters agreed with the Bureau's conjecture that the technology for this band will be sufficiently flexible to eliminate the significance of the identity of adjacent carriers to operations and thus valuations.<sup>13</sup>

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<sup>11</sup> See notes 2, 3 and 5 *supra*.

<sup>12</sup> U.S. Cellular at 13-22.

<sup>13</sup> See Leap at 10 (the assumption "that the technical standards and information conveyed via bidder identities are of more limited value in the AWS auction relative to prior auctions... is absolutely incorrect"); Centennial at 6 ("[Potential benefits of bidder and bid information] (cont'd)

Even large, experienced carriers (which have far better information and analytic capabilities than smaller bidders) recognize that bidders confront serious uncertainties regarding technologies, services, market structures and valuations.<sup>14</sup>

Smaller carriers<sup>15</sup> and financial backers<sup>16</sup> will be deterred by the greater risks created by blind bidding. Identifying the bids of larger, experienced carriers is critical to smaller

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regarding interference and other network issues as well as potential roaming arrangements...are as vitally important now as in previous auctions; indeed, for small and regional carriers the information is critical to their ability to provide advanced services to rural and small town America."); MetroPCS at 11 ("MetroPCS also disagrees with the Commission's claims that the benefits of full transparency in terms of bidding information are less significant in this upcoming auction of AWS-1 licenses." (citing different technology platforms and roaming arrangements)).

<sup>14</sup>See Cingular at 8-9: "Auction 66 will open up an entirely new band for an entirely new generation of services that go well beyond current CMRS applications. In addition, the Commission can reasonably anticipate that new entrants to the wireless arena may participate in this auction in order to enhance their existing non-wireless communications offerings. There may well be as much or more uncertainty surrounding market valuations for the Auction 66 licenses as in any auction to date, so there is simply no basis for assuming that history will provide information that could serve as a substitute for the typical bidding information."

T-Mobile at 6: "Failures to disclose bidder information will have a discriminatory effect by increasing disparities in information that already may be skewed."

<sup>15</sup>See Leap at 10-11: "the state of wireless broadband deployment today is similar to the nascent and evolving state of wireless voice in the early PCS auctions.... AWS license winners will be affected by the technology used by other license winners in adjacent bands.... [B]idder valuations do depend on who else wins licenses and how many bidders win licenses in the market, as well as how much spectrum each bidder has."

RTG at 3: "Rural carriers, who are heavily dependent upon roaming and oftentimes make technological and business decisions based on the equipment and technologies used by their much large[r] urban neighbors, will have a hard time making rational bidding decisions if they do not know the identities of their neighboring bidders."

Centennial at 7: "Currently, the wireless industry is poised on the cusp of constructing high-speed data networks that will provide Internet access, entertainment, and a host of other features. These investments are large and risky.... Without the ability to determine that its customers will have access to compatible new services over a broader geographical area, or

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carriers' development of valuations and ability to attract capital. Additionally, smaller carriers need to coordinate their technology and services with adjacent carriers, risks that are reduced by knowing the identities of adjacent bidders.

Auction economist Cramton concludes that in the AWS-1 auction (a) collusive bidding is unlikely, (b) full transparency of bidders and bids would confer many advantages, and (c) on balance, the FCC should favor full transparency.<sup>17</sup> With the FCC's rule changes limiting collusion through bid signaling and withdrawals, he finds in FCC auctions little use of retaliatory bidding strategies (the sole remaining form of collusive bidding) and inconclusive evidence of revenue losses.<sup>18</sup> As factors weighing against concealment, he describes interdependent technology choices, interference issues, information disadvantages for smaller bidders, lost efficiency in capital markets, and irreparable harm to the integrity of the FCC's auction program from a leak over the many weeks of the auction.<sup>19</sup>

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lacking confidence that there will be a brisk demand for equipment and consumer products for the new services, smaller carriers have less incentive to bid aggressively for new spectrum."

MetroPCS at 12: "[I]f the market-setting bids are being placed by less experienced, less well-known companies, the financial markets will not be as comfortable and, depending on the prices, may refuse to support bids or finance build-out. Blind bidding serves to withhold this relevant information...."

<sup>16</sup> See Columbia Capital and MC Venture Partners at 6 ("[A] bid by a major carrier with a history of building out its network and providing service to the public may provide stronger evidence of the appropriate value for a given license than a bid by an entity regarded in the industry as a speculator."). See also Reuters at 3 ("The marketplace has come to depend on the flow of information that has characterized the FCC license auctions for the past decade."); T-Mobile at 8 (stockholders are entitled to know what their company is doing in the auction).

<sup>17</sup> Cramton at 2-6.

<sup>18</sup> *Id.* at 5.

<sup>19</sup> *Id.* at 3-4.

The few commenters favoring some limits on information disclosures rely on unsupported conjectures and collusion in an auction far different from the conditions for Auction No. 66.

Two filings by economists make assumptions about how bidders will value AWS-1 licenses and the flexibility of technologies for this band.<sup>20</sup> In contrast, carriers know that AWS-1 licenses will not be merely more PCS/cellular spectrum, and that they will not simply apply the old valuation models given the uncertainties of AWS-1 technologies and services.<sup>21</sup> Moreover, they will not allow the promise of undeveloped technologies to override their real world experience in wireless markets: even for current state-of-the-art wireless infrastructure and handsets, different adjacent carriers and the different technologies they have chosen to deploy have different effects on interference and service availability over broad areas.<sup>22</sup>

In other comments, economists Bajari and Fox focus on deterring jump bidding.<sup>23</sup> They do not try to weigh the harms of concealing bidder identities, despite their research finding that "the identities of winning bidders do affect the economic efficiency of the post-auction wireless industry."<sup>24</sup> Additionally, they rely on their examination of one FCC auction, the DEF auction. In contrast, Cramton observes that his studies of many FCC auctions over the last

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<sup>20</sup> Milgrom and Rosston point generally to "more spectrum has been subject to market pricing, valuations have become more transparent, and ... technologies have evolved." Milgrom and Rosston at 3. Similarly, Brusco and Lopomo hypothesize that "the industry has reached a level of maturity for which the benefits in terms of economic efficiency stemming from maximal information disclosure are likely to be considerably diminished." Brusco and Lopomo at 2.

<sup>21</sup> See notes 14 and 15 *supra*.

<sup>22</sup> See note 13 *supra*.

<sup>23</sup> Bajari and Fox at 1-2.

<sup>24</sup> *Id.* 1.

twelve years show that "only a small fraction of the bidders used retaliatory strategies," and "much has changed since the DEF auction to reduce the risk of collusive bidding."<sup>25</sup> As U.S. Cellular commented, recent economic analyses of the DEF auction should not be mistaken for economic analyses of recent FCC auctions.<sup>26</sup> With the changed auction rules and enforcement actions, recent auctions like Auction No. 58 have been free of allegations of collusive bid signaling.<sup>27</sup>

Finally, Verizon Wireless claims that "[l]imiting information about bidders and bidding will lead to a better auction environment in which the focus rightfully is on licenses and their value, not on other bidders and their bidding strategies."<sup>28</sup> Again, Verizon Wireless is the only carrier supporting a major change in auction procedures. Not surprisingly, its position is again entirely self-serving. Apparently, it intends to acquire massive license holdings, making it less dependent than smaller bidders on the identities of bidders in adjacent areas. Moreover, it has the resources and capital to finance its own technology and service development and has sufficient scale to ensure that suppliers create the infrastructure, devices, and applications it needs. By advocating risky procedures, Verizon Wireless hopes to limit the number and strength of competing bidders, allowing it to obtain licenses at lower prices than would apply if the FCC continued its standard disclosures.

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<sup>25</sup> Cramton at 5.

<sup>26</sup> U.S. Cellular at 15 (quoting Professor Timothy Salmon).

<sup>27</sup> See MetroPCS at 3-4 ("the procedures utilized in Auction No. 58 (PCS Broadband) worked well and...nothing occurred in that auction which would warrant some of the substantial changes proposed by the Commission"); Cingular at 8 (no evidence from previous FCC auctions that the availability of substantial bidder information resulted in anti-competitive or collusive behavior).

<sup>28</sup> Verizon Wireless at 5.

Verizon Wireless ignores the evidence from past auctions that license values are heavily dependent on the actions of other bidders. For example, financial backers observed that they do not support bids based on static, pre-determined valuation models; rather, an auction is a dynamic learning process in which the bids placed by respected carriers are studied in "evaluating whether a particular market could sustain a higher bid and attract additional capital for network build-out and operating capital."<sup>29</sup> Verizon Wireless also ignores the uncertainties that pervade the valuation of AWS-1 licenses addressed by Cingular, T-Mobile and every smaller carrier. The valuations of these licenses for most carriers will be highly dependent on the learning process coming from evaluation of bidders and bids during the course of the auction.<sup>30</sup>

Even Verizon Wireless is troubled by problems caused by the proposed concealments to bidders' compliance with the anti-collusion rules and reasoned bidding decisions, and argues for disclosure of more detailed bidder and bid information than the Bureau proposed.<sup>31</sup> Instead of untested rules attempting to define a new scope of concealments and disclosures, the FCC should maintain the benefits of effective, familiar disclosures.

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<sup>29</sup> Columbia Capital and MC Venture Partners at 7.

<sup>30</sup> See notes 14 and 15 supra.

<sup>31</sup> Verizon Wireless argues that the Bureau must disclose the identities of auction applicants (including their 10 percent or greater owners, agreements and other instruments), which bidders ultimately qualified for the auction, whether an applicant paid an upfront payment, the number of bidding units deposited at the start of the auction, the number of bids per license, the total number of bids per round, totals for other key information (waivers used, eligibility lost, remaining eligibility and the number of remaining bidders), and "information on the auction activity level." Verizon Wireless at 5-7. See also Cingular at 9-10.

### **III. THE FCC SHOULD ADOPT THREE MINOR RULE CHANGES TO INCREASE PARTICIPATION BY SMALLER BIDDERS AND AUCTION EFFICIENCY.**

U.S. Cellular supports three less-disruptive rule changes. These changes would increase participation by smaller bidders and auction efficiency. They are consistent with the standard auction procedures involving SMR and full disclosures.

- A. Reduce or eliminate minimum opening bids for individual licenses.<sup>32</sup> In light of the CSEA requirement applicable to total revenues from the auction, minimum opening bids on individual licenses will complicate the auction and may cause inefficiencies. These pre-auction amounts risk erroneously second-guessing the market on license values. Similarly, as in all other auctions it conducted, the FCC should avoid setting reserve prices for specific licenses. The CSEA requirement does not impose a uniform distribution of reserve prices across individual licenses.
- B. Reduce the formula for setting minimum required bid increments as the bid eligibility ratio declines.<sup>33</sup> The proposed formula would foreclose some significant (2% to 5%) bid increments in the advanced stages of the auction, causing inefficiencies.
- C. Revise the stopping rule. If a round has no new bids and the CSEA requirement has not been satisfied, the FCC should announce these conditions and keep the auction open for at least one more round.<sup>34</sup>

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<sup>32</sup> See Wirefree Partners at 6; Verizon Wireless at 7-10.

<sup>33</sup> See Leap at 13-14.

<sup>34</sup> See Cingular at 10-11.

#### **IV. THE FCC SHOULD PROMPTLY ADOPT ITS EFFECTIVE, TESTED RULES FOR THE AWS-1 AUCTION.**

U.S. Cellular strongly supports the prompt auction of the AWS-1 licenses commencing on June 29, 2006 as scheduled.<sup>35</sup> Larger carriers (such as T-Mobile and ALLTEL<sup>36</sup>) as well as smaller carriers<sup>37</sup> are eager to bring advanced, competitive broadband wireless services to American consumers. This spectrum is needed in the marketplace now.<sup>38</sup> The FCC should not delay the auction of spectrum needed to deploy broadband services by attempting to develop major new auction procedures to address non-existent problems. Nor should the FCC rush into risky, untested auction procedures.

The solution is to adopt promptly the effective, tested rules for the AWS-1 auction employing a single standard SMR auction with full information disclosures.<sup>39</sup> The three minor, less-disruptive rule changes that U.S. Cellular supports are consistent with this familiar framework; they will promote increased participation by smaller bidders and auction efficiency.

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<sup>35</sup> U.S. Cellular at 4.

<sup>36</sup> See T-Mobile at 2-3 ("The substantial spectrum advantage enjoyed by the three largest wireless carriers as a result of recent merger activity and the increasing demand for mobile wireless offerings underscore the need to put valuable AWS spectrum into the hands of smaller nationwide, regional and rural carriers as soon as possible to promote continued competition and product choice in the marketplace for advanced services."); ALLTEL at 1. See also CTIA at 4.

<sup>37</sup> See RTG at 9 ("With the rash of recent mergers in the wireless industry among larger carriers and the resulting consolidation of valuable spectrum, it is in the public interest for the Commission to commence the AWS-1 auction as soon as possible so that smaller and rural carriers can acquire spectrum and offer the public competitive choices and new, advanced services. RTG members and other small, rural carriers are eager to provide AWS based offerings and any unnecessary delay would harm their rural customers.").

<sup>38</sup> Cramton at 1, 7.

<sup>39</sup> CTIA at 4 ("in the absence of compelling reasons, the Commission should use standard procedures"); MetroPCS at 5; National Telecommunications Cooperative Association at 3; ALLTEL at 3.

Uncertainties over auction procedures are detrimental to bidders' efforts to attract capital, establish bidding entities and develop bidding strategies. By promptly removing these uncertainties, the FCC will increase smaller bidders' participation in the auction, the efficiency of the spectrum allocations, and auction revenues.

Why make changes (in a procedure which has worked well in the past, and been carefully refined over time) which will definitely create new problems (especially for regional and small competitors), when it is not even clear that the "problems" the changes are meant to address currently exist?

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